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Report Highlights: The dry and hot summer only marginally affected EU-15 milk deliveries. During CY2003 and CY2004, cheese production is expected to increase leading to lower butter and NFDM production. It is anticipated that despite this reduction there will be a further build up of intervention stocks.

Includes PSD Changes: No
Includes Trade Matrix: No
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EXECUTIVE SUMMARY

Dry conditions had only a marginal impact on total EU-15 cow milk deliveries in CY2003 due to an increased use of fodder. During CY2003 and CY2004, EU-15 cheese production is forecast to continue its upward trend due to the profitability of cheese production compared to butter and milk powders. This profitability is believed supported by expansion of exports and, to a lesser extent, internal consumption. In CY2003, EU-15 cheese exports to third countries are forecast to increase by four percent. During CY2003 and CY2004, butter and NFDM production are forecast to decline mainly due to expanding cheese production. Nevertheless, in CY2003 both butter and NFDM exports are expected to increase because of reduced competition from Oceania. At the same time, intervention stocks of butter and NFDM are expected to rise during CY2003. During CY2003 and CY2004, EU-15 WMP production, consumption and trade are expected to remain at about the same level as in CY2002.

FLUID MILK

Country:	EU				
Commodity:	Dairy, Milk, Fluid				
		2002		2003	2004
	Old	New	Old	New	New
Calendar Year Begin		01/2002		01/2003	01/2004
Cows In Milk	20,320	20,068	20,050	19,750	19,400
Cows Milk Deliveries to Dairies	115,130	115,600	115,150	115,450	115,500
Other Milk Production	2,360	2,368	2,400	2,450	2,500
TOTAL SUPPLY	117,490	117,968	117,550	117,900	118,000
Fluid Use Dom. Consum.	31,042	30,432	32,150	30,450	30,500
Factory Use Consum.	86,448	87,536	85,400	87,450	87,500
Feed Use Dom. Consum.	-	-	-	-	-
TOTAL DISTRIBUTION	117,490	117,968	117,550	117,900	118,000

Note: A revision of the CY2002 cow milk deliveries was necessary after the official statistics of the full year had been made available. CY2002 milk deliveries turned out to be higher than expected, mainly due to adjustment of the French and Italian statistics.

The long-term decline in the size of the EU-15 dairy herd and increasing yield per cow continue apace, maintaining milk production at or near quota. While dry conditions have led to a decline in average fat content of milk, it had only a marginal impact on total EU-15 cow milk deliveries due to an increased use of fodder. In CY2003, EU-15 cow milk deliveries are forecast to fall just 150 MMT from 115,600 MMT in CY2002. The dry summer negatively affected milk deliveries in France and Italy, both are forecast to have a reduction of nearly 2 percent. It is anticipated that EU-15 cow milk deliveries will remain stable in CY2004, but milk production could be negatively affected by reduced fertility rates due to the hot and dry summer in CY2003. In Germany cow milk production is expected to be reduced as a consequence of increased slaughter volumes over the coming winter.

The trend of increased production of milk other than cow milk, is expected to continue during CY2003 and CY2004. Reportedly good market opportunities exist for the cheese produced from sheep, goat and buffalo. Another factor is that this production is not limited by quotas. Main producers are France, Greece and Spain.

During CY2003 and CY2004, human consumption of fluid milk is expected to rise slightly. This turn-around from the previous long-term decline is driven in part by the increasing popularity of coffee shops in Germany and Sweden, a trend that has been steadily spreading from the U.S. over the past few years. Despite CY2002 factory use being lower than previously anticipated, the tighter availability of milk this year is expected to cause a further reduction in factory use in CY2003. It is anticipated that the factory use of milk in CY2004 will recover nearly to the level of CY2002.

CHEESE

Country:	European Union				
Commodity:	Dairy, Cheese				
		2002		2003	2004
	Old	New	Old	New	New
Calendar Year Begin		01/2002		01/2003	01/2004
Beginning Stocks	116	116	106	121	125
Production	5,470	5,520	5,500	5,550	5,580
Extra EC Imports	146	146	155	160	155
TOTAL SUPPLY	5,732	5,782	5,761	5,831	5,860
Extra EC Exports	455	466	465	485	490
Human Dom. Consumption	4,871	4,895	4,895	4,931	4,960
Other Use, Losses	300	300	300	290	285
TOTAL Use	5,171	5,195	5,195	5,221	5,245
Ending Stocks	106	121	101	125	125
TOTAL DISTRIBUTION	5,732	5,782	5,761	5,831	5,860

NOTE: In CY2002, EU-15 production of cheese was higher than previously estimated, mainly due to revision of cheese production figures for Greece, Portugal, Austria and Finland.

During CY2003, cheese production by the fifteen EU member states is forecast to increase by 0.5 percent to 5.55 MMT. Cheese production is expected to increase in the member states that reported higher milk production, mainly Germany and the Netherlands. In CY2004, EU-15 cheese production is assumed to continue its upward trend due to the profitability of cheese production compared to the production of butter and milk powders. This profitability is believed to be supported by expansion of exports and, to a lesser extent, internal consumption.

In CY2003, human consumption of cheese is expected to increase by nearly one percent to 4.93 MMT. In the individual EU-15 member states, cheese consumption is either stabilizing or subject to a slight increase. In CY2004, EU-15 cheese consumption is expected continue rising.

In CY2003, EU-15 cheese exports to third countries are forecast to increase by four percent, mainly driven by expanding German cheese exports. German cheese exports increased to Japan, Croatia, Mexico, and in particular to Russia. In CY2004, EU-15 cheese exports to markets outside the EU-15 are expected to increase further, to 490,000 MT. EU-15 cheese imports from third countries are expected to increase by nearly ten percent in CY2003 to 160,000 MT. Increased imports by Germany from Poland, Estonia and Hungary, as a result of preferential agreements with countries acceding to the EU account for most of the total increase.

BUTTER

Country:	EU				
Commodity:	Dairy, Butter				
		2002		2003	2004
	Old	New	Old	New	New
Calendar Year Begin		01/2002		01/2003	01/2004
Beginning Stocks	141	141	242	242	300
Production	1,792	1,905	1,760	1,890	1,860
Extra EC Imports	115	115	100	120	120
TOTAL SUPPLY	2,048	2,161	2,102	2,252	2,280
Extra EC Exports	207	214	210	240	240
Total Domestic Use	1,599	1,705	1,612	1,712	1,720
Ending Stocks	242	242	280	300	320
TOTAL DISTRIBUTION	2,048	2,161	2,102	2,252	2,280

NOTE: EU-15 butter production, which includes butteroil/anhydrous milk fat, was higher than originally expected in CY2002. Original CY2002 data underestimated the production of butteroil in some EU member states, mainly the Netherlands. Trade data for butter in CY2002 have been finalized, and as a result domestic use, which includes domestic consumption, industrial use and commercial stock has been revised upward.

During CY2003, butter production is forecast to decline to 1.89 MMT, down marginally from CY2002 levels. This is as a result of slightly lower milk availability for manufacturing use and expected increased production of cheese. Production increases in a number of countries, Germany, France and the United Kingdom, are offset by declines in others (especially Spain and Ireland). While there is forecast to be a slight increase in the availability of milk for manufacture during CY2004, there is an expectation that with increased cheese production and uncertainty on price, butter production in CY2004 will decline once again.

Imports of butter into the EU-15 are expected to increase in CY2003. Also butter exports are expected to increase in CY2003 with most of those additional exports accounted for by increased sales from Germany and the Netherlands to Egypt, Japan, Algeria and Russia.

Intervention stocks of butter are expected to increase by 58,000 MT by the end of CY2003 mainly as a result of poorer internal EU-15 market conditions during this year. With domestic use stable and trade also expected stable, intervention stocks should show a year on year increase of 20,000 MT in CY2004.

NONFAT DRY MILK (NFDM)

Country:	EU				
Commodity:	Dairy, Milk, Nonfat Dry				
		2002		2003	2004
	Old	New	Old	New	New
Calendar Year Begin		01/2002		01/2003	01/2004
Beginning Stocks	-	-	140	140	180
Production	1,070	1,107	1,010	1,090	1,060
Extra EC Imports	69	69	50	90	90
TOTAL SUPPLY	1,139	1,176	1,200	1,320	1,330
Extra EC Exports	161	161	175	240	225
Human Dom. Consumption	260	320	260	320	325
Other Use, Losses	578	555	600	580	580
TOTAL Use	838	875	860	900	905
Ending Stocks	140	140	165	180	200
TOTAL DISTRIBUTION	1,139	1,176	1,200	1,320	1,330

NOTES: A revision of the CY2002 NFDM production and use figures was necessary after the official statistics of the full year had been made available. CY2002 NFDM production, turned out to be higher than expected, while the use of NFDM in animal feed was lower than forecast. The domestic use of NFDM has been revised upwards due to anticipated building up of commercial stocks. Ending stocks are EU-15 intervention stocks only. Commercial stocks are included in "human domestic use".

In CY2003, EU-15 NFDm production is forecast to decrease by 1.5 percent to 1.09 MMT, which is a smaller decline than previously expected. However, this forecast masks regional differences, with a production increase in the United Kingdom being offset by decreases in Germany, France, Ireland, and Belgium. The increased production in the United Kingdom is mainly driven by the possibility to produce for intervention. With high stocks, production of NFDm is expected to continue its decline during CY2004.

It is anticipated that the total use of NFDm by the EU-15 will increase slightly, to 900,000 MT in CY2003. Human domestic use is expected to remain stable, while the use in feed increases. CY2003 ending stocks (intervention stocks only) are forecast to increase by 40,000 MT to 180,000 MT, a smaller increase than in CY2002, when 140,000 MT went into intervention. In CY2004, human domestic use is forecast to increase marginally, while surplus NFDm is again forecast to be bought into intervention, thus increasing ending stocks further to 200,000 MT.

In CY2003, imports from third countries are forecast to increase by more than thirty percent to 90,000 MT, mainly from New Zealand and the EU-accession countries, namely Poland. The Netherlands and Germany are the major recipients of third country NFDm imports, while limited amounts are imported into France and Belgium. In CY2004, EU-15 imports are expected to remain at 90,000 MT.

EU-15 NFDm exports to third countries are forecast to increase by fifty percent to 240,000 MT. This strong increase is driven by the limited availability of NFDm on the world market due to the drought in Australia in CY2002/2003. Expected decreases in Irish exports are more than compensated for by expected increases from France, the Netherlands and Germany. Major destinations for EU-15 NFDm exports are Mexico, East Asia (especially Indonesia, and Vietnam), and Nigeria. During CY2004, EU-15 exports are forecast to decrease, as exports from Australia are expected to play a stronger competitive role on the world market.

WHOLE DRY MILK (WDM)

Country:	EU				
Commodity:	Whole Milk Powder (WMP)				
		2002		2003	2004
	Old	New	Old	New	New
Calendar Year Begin		01/2002		01/2003	01/2004
Beginning Stocks	0	0	0	0	0
Production	800	800	810	800	800
Extra EC Imports	18	18	19	20	20
TOTAL SUPPLY	818	818	829	820	820
Extra EC Exports	493	493	485	495	495
Human Dom. Consumption	325	325	344	325	325
Other Use, Losses	0	0	0	0	0
TOTAL Use	325	325	344	325	325
Ending Stocks	0	0	0	0	0
TOTAL DISTRIBUTION	818	818	829	820	820

During CY2003 and CY2004, EU-15 WMP production is expected to remain at the same level as in CY2002 (800,000 MT). Production is growing in France and the Netherlands to meet demand from non EU-15 countries. In CY 2003, EU-15 WDM exports to third countries are anticipated to increase marginally to 495,000 MT.

WMP consumption in CY2003 and CY2004 is forecast stable. High intervention stocks of both NFDM and butter prevented a higher WMP consumption in the EU-15 during last summer. EU-15 ice cream makers replaced WMP by NFDM and butter due to lower prices.

CAP REFORMS

On June 27 2003, an agreement was reached upon reforms of the Common Agricultural Policy (CAP). As part of the CAP reforms, intervention prices for butter and NFDM will be lowered by 25 percent and 15 percent respectively. Four steps will impose this cut gradually during four years (see table below). The first cut, imposed on July 2004, is expected to have limited effect on the EU-15 dairy market.

Intervention prices for butter and NFDM during 2004-2007 (Euro per MT).

	Present	July 2004	July 2005	July 2006	July 2007	Total Reduction
Butter (max. volume)	3282.0 (no limit)	3052.3 (70,000)	2824.4 (60,000)	2595.2 (50,000)	2463.9 (40,000)	-25%
NFDM	2055.2	1952.4	1849.7	1746.9	1746.9	-15%

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